

**REPORT OF THE AUDIT OF THE
BELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



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AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Albey Brock, Bell County Judge/Executive

Honorable William Kelley, Former Bell County Judge/Executive

Members of the Bell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated Bell County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BELL COUNTY FISCAL COURT

June 30, 2007

Ross & Company, PLLC has completed the audit of the Bell County Fiscal Court for fiscal year ended June 30, 2007. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Bell County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$3,298,288 as of June 30, 2007. The fiscal court had unrestricted net assets of \$4,632,890 in its governmental funds as of June 30, 2007, with total net assets of \$3,201,330. In its enterprise fund, total net cash and cash equivalents were \$96,958 with total net assets of \$96,958. The fiscal court had total debt principal as of June 30, 2007 of \$11,432,011 with \$573,551 due within the next year.

Report Comments:

- 2007-01 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2007-02 The County Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures
- 2007-03 The County Should Improve Internal Control Procedures Over Cash Receipts

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Honorable William Kelley, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Albey Brock, Bell County Judge/Executive

Honorable William Kelley, Former Bell County Judge/Executive

Members of the Bell County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bell County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 21, 2007, on our consideration of Bell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

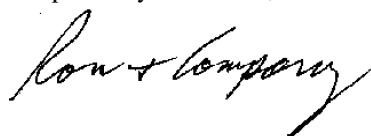
Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

2007-01 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

2007-02 The County Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures

2007-03 The County Should Improve Internal Control Procedures Over Cash Receipts

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

August 21, 2007

BELL COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

William P. Kelley, through December 31, 2006	County Judge/Executive
Albey Brock, beginning January 1, 2007	County Judge/Executive
John Brock, through December 31, 2006	Magistrate
Rick Cornett, beginning January 1, 2007	Magistrate
David E. Gilbert, through December 31, 2006	Magistrate
Hubert Dozier, beginning January 1, 2007	Magistrate
Charles F. Hunter, through December 31, 2006	Magistrate
Lonnie Maiden, beginning January 1, 2007	Magistrate
Coye Silcox	Magistrate
Andy Williams	Magistrate

Other Elected Officials:

William Neil Ward	County Attorney
James J. Hoskins	Jailer
Joan Asher Cawood, through December 31, 2006	County Clerk
Becky Blevins, beginning January 1, 2007	County Clerk
Brue Bennett	Sheriff
Geraldine Jeffers	Property Valuation Administrator
Clyde Creech	Coroner

Appointed Personnel:

Sharon Taylor	County Treasurer
Irma Brooks	Payroll Officer
Bruce Nunn	Road Supervisor

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BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,579,890	\$ 96,958	\$ 4,676,848
Notes Receivable	53,000		53,000
Total Current Assets	4,632,890	96,958	4,729,848
Noncurrent Assets:			
Notes Receivable	207,177		207,177
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	771,860		771,860
Construction in Progress	233,598		233,598
Buildings	5,859,380		5,859,380
Equipment	917,403		917,403
Vehicles	481,926		481,926
Infrastructure Assets - Net of Depreciation	1,529,107		1,529,107
Total Noncurrent Assets	10,000,451		10,000,451
Total Assets	14,633,341	96,958	14,730,299
LIABILITIES			
Current Liabilities:			
Bonds Payable	40,000		40,000
Revenue Bonds	160,000		160,000
Financing Obligation Payable	373,551		373,551
Total Current Liabilities	573,551		573,551
Noncurrent Liabilities:			
Bonds Payable	4,710,000		4,710,000
Revenue Bonds	5,485,000		5,485,000
Financing Obligation Payable	663,460		663,460
Total Noncurrent Liabilities	10,858,460		10,858,460
Total Liabilities	11,432,011		11,432,011
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	(1,431,560)		(1,431,560)
Unrestricted	4,632,890	96,958	4,729,848
Total Net Assets	\$ 3,201,330	\$ 96,958	3,298,288

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,678,259	\$ 134,261	\$ 780,851	\$
Protection to Persons and Property	2,233,298	874,963	397,883	
General Health and Sanitation	274,811			
Social Services	34,821			
Recreation and Culture	119,350			
Roads	1,622,869		2,290,265	
Debt Service	629,155			
Capital Projects	2,836,353			3,847,791
Total Governmental Activities	<u>12,428,916</u>	<u>1,009,224</u>	<u>3,468,999</u>	<u>3,847,791</u>
Business-type Activities:				
Jail Canteen	64,052	85,954		
Total Business-type Activities	<u>64,052</u>	<u>85,954</u>		
Total Primary Government	<u>\$ 12,492,968</u>	<u>\$ 1,095,178</u>	<u>\$ 3,468,999</u>	<u>\$ 3,847,791</u>

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Miscellaneous Revenues
 Interest Income
 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (3,763,147)	\$	\$ (3,763,147)
(960,452)		(960,452)
(274,811)		(274,811)
(34,821)		(34,821)
(119,350)		(119,350)
667,396		667,396
(629,155)		(629,155)
1,011,438		1,011,438
(4,102,902)		(4,102,902)
	21,902	21,902
	21,902	21,902
(4,102,902)	21,902	(4,081,000)
695,442		695,442
155,860		155,860
150,544		150,544
1,067,570		1,067,570
69,038		69,038
411,526		411,526
70,729		70,729
2,620,709		2,620,709
(1,482,193)	21,902	(1,460,291)
4,683,523	75,056	4,758,579
\$ 3,201,330	\$ 96,958	\$ 3,298,288

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Local Government Economic Development Fund
ASSETS					
Cash and Cash Equivalents	\$ 797,083	\$ 83,210	\$ 42,225	\$ 610,005	\$ 61,625
Total Assets	<u>\$ 797,083</u>	<u>\$ 83,210</u>	<u>\$ 42,225</u>	<u>\$ 610,005</u>	<u>\$ 61,625</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 12,175	\$ 36,090	\$ 13,519	\$	\$
Unreserved:					
General Fund	784,908				
Special Revenue Funds		47,120	28,706	610,005	61,625
Capital Projects					
Total Fund Balances	<u>\$ 797,083</u>	<u>\$ 83,210</u>	<u>\$ 42,225</u>	<u>\$ 610,005</u>	<u>\$ 61,625</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

Ambulance Fund	Judicial Building Project Bond Fund	Non- Major Funds	Total Governmental Funds
\$ 145,401	\$ 2,793,218	\$ 47,123	\$ 4,579,890
\$ 145,401	\$ 2,793,218	\$ 47,123	\$ 4,579,890
\$ 9,977	\$	\$	\$ 71,761
135,424		47,123	784,908
	2,793,218		930,003
			2,793,218
\$ 145,401	\$ 2,793,218	\$ 47,123	\$ 4,579,890

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 4,579,890
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	12,846,281
Accumulated Depreciation	(3,053,007)
Notes Receivable Are Not A Current Financial Resource And Therefore Are Not Reported in the Funds.	260,177
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
General Obligation Bonds	(4,750,000)
Revenue Bonds	(5,645,000)
Financing Obligations	(1,037,011)
Net Assets of Governmental Activities	\$ 3,201,330

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BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,402,463	\$	\$	\$
In Lieu Tax Payments	27,798			
Excess Fees	69,038			
Licenses and Permits	43,246			
Intergovernmental	1,031,973	1,444,599	262,705	1,163,026
Charges for Services			58,962	
Miscellaneous	354,441		17,603	
Interest	69,790			3,047
Total Revenues	<u>2,998,749</u>	<u>1,444,599</u>	<u>339,270</u>	<u>1,166,073</u>
EXPENDITURES				
General Government	1,668,121	20,939		69,703
Protection to Persons and Property	398,401		886,300	13,758
General Health and Sanitation	96,699			42,000
Social Services		616		34,205
Recreation and Culture	1,278			106,653
Transportation Facilities and Services		74,624		
Roads	14,657	1,827,512		148,736
Debt Service	138,637			
Capital Projects	1,250,000			
Administration	846,688	278,200	209,697	
Total Expenditures	<u>4,414,481</u>	<u>2,201,891</u>	<u>1,095,997</u>	<u>415,055</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,415,732)</u>	<u>(757,292)</u>	<u>(756,727)</u>	<u>751,018</u>
Other Financing Sources (Uses)				
Proceeds from Debt Obligations	1,250,000	660,000		
Transfers From Other Funds	206,940	(168,053)	632,938	
Transfers To Other Funds	(115,080)			(537,997)
Total Other Financing Sources (Uses)	<u>1,341,860</u>	<u>491,947</u>	<u>632,938</u>	<u>(537,997)</u>
Net Change in Fund Balances	(73,872)	(265,345)	(123,789)	213,021
Fund Balances - Beginning	<u>870,955</u>	<u>348,555</u>	<u>166,014</u>	<u>396,984</u>
Fund Balances - Ending	<u><u>\$ 797,083</u></u>	<u><u>\$ 83,210</u></u>	<u><u>\$ 42,225</u></u>	<u><u>\$ 610,005</u></u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Local Government Economic Development Fund	Ambulance Fund	Judicial Building Project Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 585,601	\$ 1,988,064
				27,798
				69,038
				43,246
2,816,916		383,539	218,720	7,321,478
	762,592			821,554
	1,882		110,992	484,918
		116,851	939	190,627
<u>2,816,916</u>	<u>764,474</u>	<u>500,390</u>	<u>916,252</u>	<u>10,946,723</u>
1,200,906			30,000	2,989,669
	757,175		284,411	2,340,045
			202,417	341,116
				34,821
	11,419			119,350
				74,624
				1,990,905
		1,080,142	111,163	1,329,942
1,586,353		233,598		3,069,951
	245,436	2,500	4,113	1,586,634
<u>2,787,259</u>	<u>1,014,030</u>	<u>1,316,240</u>	<u>632,104</u>	<u>13,877,057</u>
29,657	(249,556)	(815,850)	284,148	(2,930,334)
		3,500,000		5,410,000
20,140	221,595			913,560
			(260,483)	(913,560)
<u>20,140</u>	<u>221,595</u>	<u>3,500,000</u>	<u>(260,483)</u>	<u>5,410,000</u>
49,797	(27,961)	2,684,150	23,665	2,479,666
11,828	173,362	109,068	23,458	2,100,224
<u>\$ 61,625</u>	<u>\$ 145,401</u>	<u>\$ 2,793,218</u>	<u>\$ 47,123</u>	<u>\$ 4,579,890</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 2,479,666
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,201,030
Depreciation Expense	(453,676)
Repayments of Notes Receivable reported for the Governmental Activities are reported as revenues in the Governmental Funds	(51,000)
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.	
Financing Obligation Proceeds	(660,000)
Bond Proceeds	(4,750,000)
Financing Obligations Principal Payments	596,787
Bond Principal Payments	<u>155,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (1,482,193)</u></u>

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BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 96,958
Total Assets	<u>96,958</u>
Net Assets	
Unrestricted	<u>96,958</u>
Total Net Assets	<u><u>\$ 96,958</u></u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 85,954
Total Operating Revenues	<u>85,954</u>
Operating Expenses	
Cost of Sales	<u>64,052</u>
Total Operating Expenses	<u>64,052</u>
Operating Income	<u>21,902</u>
Change In Net Assets	21,902
Total Net Assets - Beginning	<u>75,056</u>
Total Net Assets - Ending	<u><u>\$ 96,958</u></u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 85,954
Cost of Sales	(64,052)
Net Cash Provided By Operating Activities	<u>21,902</u>
Net Increase in Cash and Cash Equivalents	21,902
Cash and Cash Equivalents - July 1, 2006	<u>75,056</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 96,958</u></u>

**Reconciliation of Operating Income to
Net Cash Provided (Used) by Operating Activities**

Operating Income	\$ 21,902
Net Cash Provided By Operating Activities	<u><u>\$ 21,902</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Public Properties Corporation: Judicial Center and Detention Center Building Project

The Public Properties Corporation: Judicial Center and Detention Center Building Project (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of the Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

C. Bell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The primary purpose of this fund is to account for the ambulance service activity of the county. The primary sources of revenue for this fund are collections for ambulance services.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office of Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Local Government Economic Development Fund – These funds may be spent for Local Economic Development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office of Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Public Properties Corporation- Judicial Center and Detention Center Building Project - The Judicial Center and Detention Center Building Project Fund accounts for the activities of the Public Properties Corporation: Judicial Center and Detention Center Building Project Fund, a blended component unit of the county. The Public Properties Corporation issued debt to build a judicial building and detention center. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Federal Grants Fund, Flood Mitigation Fund, Insurance Premium Fund, Abandoned Mine Land Water Project Fund, and Cumberland Gap Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Ambulance Fund, Federal Grants Fund, Flood Mitigation Fund, Insurance Premium Fund, and Cumberland Gap Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation: Judicial Center and Detention Center Building Project Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation: Judicial Building Project Fund. The Governor's Office for Local Development does not require this fund to be budgeted.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 763,360	\$ 8,500	\$	\$ 771,860
Construction in Progress		233,598		233,598
Total Capital Assets Not Being Depreciated	763,360	242,098		1,005,458
Capital Assets, Being Depreciated:				
Buildings	7,273,081	85,076		7,358,157
Equipment	1,098,165	197,887		1,296,052
Vehicles	1,243,575	19,939		1,263,514
Infrastructure	1,267,070	656,030		1,923,100
Total Capital Assets Being Depreciated	10,881,891	958,932		11,840,823
Less Accumulated Depreciation For:				
Buildings	(1,380,803)	(117,974)		(1,498,777)
Equipment	(310,462)	(68,187)		(378,649)
Vehicles	(695,826)	(85,762)		(781,588)
Infrastructure	(212,240)	(181,753)		(393,993)
Total Accumulated Depreciation	(2,599,331)	(453,676)		(3,053,007)
Total Capital Assets, Being Depreciated, Net	8,282,560	505,256		8,787,816
Government Activities Capital Assets, Net	\$ 9,045,920	\$ 747,354	\$ 0	\$ 9,793,274

Depreciation expense was as follows:

Governmental Activities:

General Government	\$ 139,588
Protection to Persons and Property	79,643
General Health & Sanitation	1,078
Roads, Including Depreciation of General Infrastructure Assets	233,367
Total Depreciation Expense - Governmental Activities	\$ 453,676

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt

A. Waterline Capital Lease Agreements

The County has entered into four capital lease agreements with the Kentucky Association of Counties Leasing Trust Program for the construction of various waterlines. The following is a description of the terms of each lease agreement:

- 1) The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in October 1993, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2007, the principal balance remaining was \$65,000. Future lease payments are as follows:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest and Fees
2008	\$ 10,000	\$ 2,349
2009	10,000	1,963
2010	11,000	1,561
2011	11,000	1,136
2012	11,000	712
2013-2016	12,000	272
Totals	<u>\$ 65,000</u>	<u>\$ 7,993</u>

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$ 10,000
Long-Term Portion	55,000
Total	<u>\$ 65,000</u>

- 2) The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in September 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2007, the principal balance remaining was \$40,000. Future lease payments are as follows:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 4,000	\$ 2,384
2009	4,000	2,139
2010	5,000	1,232
2011	5,000	1,550
2011	5,000	1,550
2012-2015	17,000	1,979
Totals	<u>\$ 40,000</u>	<u>\$ 10,834</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

A. Waterline Capital Lease Agreements (Continued)

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$	4,000
Long-Term Portion		36,000
Total	\$	<u>40,000</u>

- 3) The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in March 1998, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2007, the principal balance remaining was \$155,177. Future lease payments are as follows:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest
2008	\$ 39,000	\$ 7,558
2009	41,000	5,387
2010	43,000	3,117
2011	<u>32,177</u>	<u>1,022</u>
Totals	<u>\$ 155,177</u>	<u>\$ 17,084</u>

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$	39,000
Long-Term Portion		116,177
Total	\$	<u>155,177</u>

- 4) The County entered into a capital lease agreement August 2006, for the construction of waterlines. Terms of the agreement stipulate repayment in 2008, with a fixed interest rate. As of June 30, 2007, the principal balance remaining was \$300,000. Future lease payments are as follows:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest & Fees
2008	<u>\$ 300,000</u>	<u>\$ 2,526</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

B. Voting Machine Capital Lease Agreement

The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on January 2002. The lease proceeds were used to acquire 40 voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2007, the principal balance remaining was paid in full.

C. Ambulance Garage Capital Lease Agreement

The County entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on November 26, 2003. The lease proceeds were used to acquire land and a building. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2007, the principal balance remaining was \$116,834. Future lease payments are as follows:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 5,551	\$ 4,050
2009	5,721	3,850
2010	5,895	3,647
2011	6,076	3,435
2012	6,261	3,223
2013-2017	34,293	12,631
2018-2022	39,861	6,152
2023-2024	13,176	430
Totals	<u>\$ 116,834</u>	<u>\$ 37,418</u>

D. Judicial Building

On December 1, 2005, the Bell County Public Properties Corporation issued the 2005 Revenue Bond for the purpose of refinancing the 2000 General Obligation Bond that was used for the construction of the Farmer Helton Judicial Building.

Bell County and the Public Properties Corporation are acting as agents for the AOC in order to manage and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the AOC's payments in order to meet the debt service for the bonds.

The AOC, with the execution of the lease, has expressed its intention to continue to pay the in full both the principal and interest in each successive biennial budget period until June 30, 2029; however, the lease does not legally obligate the AOC to do so.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

D. Judicial Building (Continued)

During fiscal year end June 30, 2007, a principal payment of \$155,000 was made by AOC. As of June 30, 2007, the principal balance remaining was \$5,645,000. The future payments are as follows:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 160,000	\$ 219,818
2009	165,000	213,399
2010	175,000	206,684
2011	180,000	199,673
2012	190,000	192,365
2013-2017	1,075,000	840,855
2018-2022	1,315,000	605,239
2023-2027	1,625,000	316,099
2028-2029	760,000	30,416
Totals	<u>\$ 5,645,000</u>	<u>\$ 2,824,548</u>

E. Jail Bond Issue

On April 17, 2006, Bell County entered into an agreement for the financing of the purchase of jail land that will be used for the construction of a detention center. The financing obligation was issued in the principal amount of \$500,000 that was paid in full as of June 30, 2007.

F. Detention Facility

In 2006, the Bell County Fiscal Court issued \$3,500,000 of General Obligation Improvement bonds for financing the construction of the Bell County Detention Facility. The bonds require semiannual interest and principal payments to be made. As of June 30, 2007, the principal amount outstanding was \$3,500,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest & Fees
2008	\$ -	\$ 154,625
2009	60,000	153,313
2010	65,000	150,578
2011	65,000	147,734
2012	70,000	144,781
2013-2017	395,000	674,708
2018-2022	500,000	577,346
2023-2027	625,000	454,297
2028-2032	765,000	302,924
2033-2037	955,000	98,830
Totals	<u>\$ 3,500,000</u>	<u>\$ 2,859,136</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

G. Community Action Agency

In 2006, the Bell County Fiscal Court issued General Obligation Bonds on behalf of the Bell/Whitley Community Action Agency (CAA) for the construction of a building to house the CAA offices. The CAA is responsible for the payments of the bond. The principal amount outstanding as of June 30, 2007 was 1,250,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 40,000	\$ 53,608
2009	40,000	52,168
2010	45,000	50,638
2011	45,000	49,017
2012	45,000	47,375
2013-2017	270,000	208,550
2018-2022	335,000	145,575
2023-2027	430,000	54,078
Totals	<u>\$ 1,250,000</u>	<u>\$ 661,009</u>

H. Industrial Building

On July 13, 2006, Bell County Fiscal Court entered into an agreement to finance the construction of an industrial building on behalf of the Bell County Industrial Authority. The total amount financed was \$360,000. The Industrial Authority rents the building from the county. The rent is equivalent to the principal and interest payments. The principal outstanding at June 20, 2007 was \$360,000 and the payments are as follows:

Fiscal Year Ended June 30, 2007	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 15,000	\$ 17,445
2009	20,000	16,676
2010	20,000	15,673
2011	20,000	14,560
2012	20,000	13,558
2013-2017	120,000	51,067
2018-2022	145,000	16,872
Totals	<u>\$ 360,000</u>	<u>\$ 145,851</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

I. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bond	\$	\$4,750,000	\$	\$ 4,750,000	\$ 40,000
Revenue Bonds	5,800,000		155,000	5,645,000	160,000
Financing Obligations	973,798	660,000	596,787	1,037,011	373,551
Governmental Activities					
Long-term Liabilities	<u>\$6,773,798</u>	<u>\$5,410,000</u>	<u>\$ 751,787</u>	<u>\$11,432,011</u>	<u>\$ 573,551</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$312,903 in interest on long-term bonds and financing obligations and \$158,202 of interest and issuance cost on bond issues.

Note 6. Commitments and Contingencies

In August 1999, Bell County received a Single-County Local Government Economic Development Fund Grant in the amount of \$800,000, which was assigned to the Bell County Industrial Foundation for disbursement to the Cumberland Gap Provision Company in the form of an \$800,000 loan. This loan was for a period of ten (10) years at three percent (3%) interest. Monthly interest only payments were due for the first three (3) years of the loan term. At the end of that three (3) year period, \$100,000 of the principal amount of the loan was forgiven, based on the Company's degree of compliance with the terms of the jobs requirement, and the remaining balance is being amortized at an interest rate of three percent (3%) per annum over the remaining life of the loan, to be repaid in equal consecutive monthly payments of principal and interest. Cumberland Gap Provision Company pays the note payments to the Bell County Industrial Development Foundation, which pays the payments over to the county, and the county pays the payments over to the Kentucky Economic Development Finance Authority. Upon default of the loan agreement, the Cumberland Gap Provision Company, The Bell County Industrial Foundation, and the Bell County Fiscal Court can be responsible for repayment to the Kentucky Economic Development Finance Authority. As of June 30, 2007, Cumberland Gap Provision Company was in substantial compliance with the terms of the loan agreement.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2007, Bell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,261,000	\$ 1,261,000	\$ 1,402,463	\$ 141,463
In Lieu Tax Payments	18,000	18,000	27,798	9,798
Excess Fees	9,096	9,096	69,038	59,942
Licenses and Permits	33,000	33,000	43,246	10,246
Intergovernmental	715,508	976,125	1,031,973	55,848
Charges for Services	400	400		(400)
Miscellaneous	139,009	138,489	354,441	215,952
Interest	80,000	80,000	69,790	(10,210)
Total Revenues	<u>2,256,013</u>	<u>2,516,110</u>	<u>2,998,749</u>	<u>482,639</u>
EXPENDITURES				
General Government	1,582,724	1,674,991	1,668,121	6,870
Protection to Persons and Property	171,593	408,188	398,401	9,787
General Health and Sanitation	78,626	97,722	96,699	1,023
Recreation and Culture	520	1,960	1,278	682
Roads	15,172	15,172	14,657	515
Debt Service	107,370	138,638	138,637	1
Administration	974,335	853,766	846,688	7,078
Total Expenditures	<u>2,930,340</u>	<u>3,190,437</u>	<u>3,164,481</u>	<u>25,956</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(674,327)</u>	<u>(674,327)</u>	<u>(165,732)</u>	<u>508,595</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	168,053	168,053	206,940	38,887
Transfers To Other Funds	<u>(172,619)</u>	<u>(172,619)</u>	<u>(115,080)</u>	<u>57,539</u>
Total Other Financing Sources (Uses)	<u>(4,566)</u>	<u>(4,566)</u>	<u>91,860</u>	<u>96,426</u>
Net Changes in Fund Balance	(678,893)	(678,893)	(73,872)	605,021
Fund Balance - Beginning	<u>678,893</u>	<u>678,893</u>	<u>870,955</u>	<u>192,062</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 797,083</u>	<u>\$ 797,083</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,431,888	\$ 1,431,888	\$ 1,444,599	\$ 12,711
Total Revenues	1,431,888	1,431,888	1,444,599	12,711
EXPENDITURES				
General Government	19,000	21,500	20,939	561
Social Services	20,000	20,000	616	19,384
Transportation Facilities and Services	84,500	84,654	74,624	10,030
Roads	1,287,701	1,300,607	1,167,512	133,095
Administration	308,455	292,895	278,200	14,695
Total Expenditures	1,719,656	1,719,656	1,541,891	177,765
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(287,768)	(287,768)	(97,292)	190,476
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(168,053)	(168,053)	(168,053)	
Total Other Financing Sources (Uses)	(168,053)	(168,053)	(168,053)	
Net Changes in Fund Balance	(455,821)	(455,821)	(265,345)	190,476
Fund Balance - Beginning	455,821	455,821	348,555	(107,266)
Fund Balance - Ending	\$ 0	\$ 0	\$ 83,210	\$ 83,210

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 262,903	\$ 262,903	\$ 262,705	\$ (198)
Charges for Services	45,500	45,500	58,962	13,462
Miscellaneous	12,000	12,000	17,603	5,603
Total Revenues	<u>320,403</u>	<u>320,403</u>	<u>339,270</u>	<u>18,867</u>
EXPENDITURES				
Protection to Persons and Property	795,577	789,664	886,300	(96,636)
Administration	215,303	221,216	209,697	11,519
Total Expenditures	<u>1,010,880</u>	<u>1,010,880</u>	<u>1,095,997</u>	<u>(85,117)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(690,477)</u>	<u>(690,477)</u>	<u>(756,727)</u>	<u>(66,250)</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers From Other Funds	<u>690,477</u>	<u>690,477</u>	<u>632,938</u>	<u>(57,539)</u>
Total Other Financing Sources (Uses)	<u>690,477</u>	<u>690,477</u>	<u>632,938</u>	<u>(57,539)</u>
Net Changes in Fund Balance			(123,789)	(123,789)
Fund Balance - Beginning			<u>166,014</u>	<u>166,014</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 42,225</u>	<u>\$ 42,225</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 710,000	\$ 710,000	\$ 1,163,026	\$ 453,026
Interest			3,047	3,047
Total Revenues	710,000	710,000	1,166,073	456,073
EXPENDITURES				
General Government			69,703	(69,703)
Protection to Persons and Property	14,332	14,332	13,758	574
General Health and Sanitation	32,500	32,500	42,000	(9,500)
Social Services	29,700	29,700	34,205	(4,505)
Recreation and Culture	110,933	110,933	106,653	4,280
Roads	135,000	135,000	148,736	(13,736)
Administration	26,150	26,150		26,150
Total Expenditures	348,615	348,615	415,055	(66,440)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	361,385	361,385	751,018	389,633
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(517,858)	(517,858)	(537,997)	20,139
Total Other Financing Sources (Uses)	(517,858)	(517,858)	(537,997)	20,139
Net Changes in Fund Balances	(156,473)	(156,473)	213,021	369,494
Fund Balances - Beginning	156,473	156,473	396,984	240,511
Fund Balances - Ending	\$ 0	\$ 0	\$ 610,005	\$ 610,005

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Charges for Services	\$ 660,000	\$ 700,200	\$ 762,592	\$ 62,392
Miscellaneous			1,882	1,882
Total Revenues	660,000	700,200	764,474	64,274
EXPENDITURES				
Protection to Persons and Property	711,941	761,980	757,175	4,805
Debt Service	9,624	11,419	11,419	
Administration	258,947	247,313	245,436	1,877
Total Expenditures	980,512	1,020,712	1,014,030	6,682
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(320,512)	(320,512)	(249,556)	70,956
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	149,750	149,750	221,595	71,845
Total Other Financing Sources (Uses)	149,750	149,750	221,595	71,845
Net Changes in Fund Balances	(170,762)	(170,762)	(27,961)	142,801
Fund Balances - Beginning	170,762	170,762	173,362	2,600
Fund Balances - Ending	\$ 0	\$ 0	\$ 145,401	\$ 145,401

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 5,857,025	\$ 5,857,025	\$ 2,816,916	\$ (3,040,109)
Total Revenues	5,857,025	5,857,025	2,816,916	(3,040,109)
EXPENDITURES				
General Government	1,736,137	1,736,137	1,200,906	535,231
Capital Projects	4,120,888	4,120,888	1,586,353	2,534,535
Total Expenditures	5,857,025	5,857,025	2,787,259	3,069,766
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			29,657	29,657
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			20,140	20,140
Total Other Financing Sources (Uses)			20,140	20,140
Net Changes in Fund Balances			49,797	49,797
Fund Balances - Beginning			11,828	11,828
Fund Balances - Ending	\$ 0	\$ 0	\$ 61,625	\$ 61,625

BELL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

	Expenditures	Other Financing Sources (Uses)
<u>Reconciliation to the General Fund</u>		
Budgetary Comparison Schedule	\$ 3,164,481	\$ 91,860
Debt Obligation Transactions Not Budgeted	1,250,000	1,250,000
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis	<u>\$ 4,414,481</u>	<u>\$ 1,341,860</u>
<u>Reconciliation to the Road Fund</u>		
Budgetary Comparison Schedule	\$ 1,541,891	\$ (168,053)
Debt Obligation Transactions Not Budgeted	660,000	660,000
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis	<u>\$ 2,201,891</u>	<u>\$ 491,947</u>

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BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Federal Grants Fund	Flood Mitigation Fund	Insurance Premium Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 3,360	\$ 1,375	\$ 42,388	\$ 47,123
Total Assets	<u>\$ 3,360</u>	<u>\$ 1,375</u>	<u>\$ 42,388</u>	<u>\$ 47,123</u>
FUND BALANCES				
Reserved for:				
Grants	\$ 3,360	\$	\$	\$ 3,360
Unreserved:				
Special Revenue Funds		1,375	42,388	43,763
Total Fund Balances	<u>\$ 3,360</u>	<u>\$ 1,375</u>	<u>\$ 42,388</u>	<u>\$ 47,123</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Federal Grants Fund	Flood Mitigation Fund	Insurance Premium Fund	Cumberland Gap Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$	\$	\$ 585,601	\$	\$ 585,601
Intergovernmental	94,250	124,470			218,720
Miscellaneous				110,992	110,992
Interest			768	171	939
Total Revenues	<u>94,250</u>	<u>124,470</u>	<u>586,369</u>	<u>111,163</u>	<u>916,252</u>
EXPENDITURES					
General Government	30,000				30,000
Protection to Persons and Property			284,411		284,411
General Health and Sanitation	64,250	138,167			202,417
Debt Service				111,163	111,163
Administration		4,113			4,113
Total Expenditures	<u>94,250</u>	<u>142,280</u>	<u>284,411</u>	<u>111,163</u>	<u>632,104</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(17,810)</u>	<u>301,958</u>		<u>284,148</u>
OTHER FINANCING SOURCES (USES)					
Transfers To Other Funds			<u>(260,483)</u>		<u>(260,483)</u>
Total Other Financing Sources			<u>(260,483)</u>		<u>(260,483)</u>
Net Change in Fund Balances		(17,810)	41,475		23,665
Fund Balances - Beginning	<u>3,360</u>	<u>19,185</u>	<u>913</u>		<u>23,458</u>
Fund Balances - Ending	<u>\$ 3,360</u>	<u>\$ 1,375</u>	<u>\$ 42,388</u>	<u>\$ 0</u>	<u>\$ 47,123</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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www.rosscpas.com

The Honorable Albey Brock, Bell County Judge/Executive
The Honorable William Kelley, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bell County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bell County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The County Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures
- The County Should Improve Internal Control Procedures Over Cash Receipts

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bell County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- The County Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures

The Bell County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Ross & Company, PLLC
Certified Public Accountants

August 21, 2007

**BELL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

**BELL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

2007-01 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 mentions that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review the Administrative Code and make necessary changes and modifications as appropriate. The review of the Administrative Code and Ethics Code should be reflected in the minutes of the Fiscal Court.

Current County Judge/Executive Albey Brock's Response: The Administrative Code and Ethics Code will be reviewed by the Fiscal Court each year.

2007-02 The County Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures

During the prior year exit conference, it was recommended that the county require the Bell County Volunteer Fire Department to submit adequate documentation for expenditures. We performed a follow-up of this recommendation and found that adequate and sufficient documentation was not always maintained. Therefore, we remind the county of the following:

The Bell County Volunteer Fire Department did not submit to the fiscal court adequate documentation to support expenditures made from insurance premium tax receipts. From the information that was submitted to the fiscal court, we noted numerous instances where expenditures were made without proper and adequate documentation. Insurance premium tax receipts are public funds. Therefore, it is mandatory that expenditures of public funds are made in accordance with state laws and regulations and that appropriate accounting and documentation is maintained. This includes the following practices:

- An original invoice should be maintained for all expenditures. Under no circumstance should expenditures be paid from a statement rather than an original invoice.
- Only expenditures that are reasonable and necessary for the operation of the fire department should be paid.
- Only expenditures that are allowable under state laws and regulations should be paid.
- Bids for materials, supplies, equipment, or services shall be made in accordance with KRS 424.260.
- Mileage logs should be maintained for use of public vehicles.
- Adequate documentation should be maintained for travel reimbursements.

We recommend that the fiscal court monitor the Bell County Volunteer Fire Department's compliance with the above recommendations.

Current County Judge/Executive Albey Brock's Response: Having met with the Bell County Volunteer Fire Department and addressed these issues in the past and having no results, I must request guidance from the state auditors in dealing with these problems.

Auditor's Reply: We suggest that the County Judge/Executive consult with the County Attorney to determine possible legal options available to ensure the county's monitoring and oversight of the expenditure of the county's tax dollars earmarked for the fire department.

**BELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2007
(Continued)**

2007-03 The County Should Improve Internal Control Procedures

During the audit, auditors noted additional procedures that should be implemented in order to strengthen internal control procedures over cash receipts. Currently one person is responsible for opening the mail, posting receipts, and making deposits. We recommend that the following procedures be implemented in order to strengthen internal controls:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the treasurer's bank reconciliations for accuracy. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should cancel the purchase orders and invoices to ensure invoices are not paid twice.

We recommend that controls such as the ones suggested above be implemented in order to strengthen internal controls.

Current County Judge/Executive Albey Brock's Response: Segregation of duties are now in place to comply with recommendations.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM**

BELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Appendix A

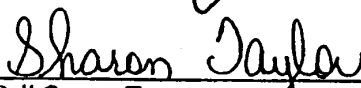
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM
BELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Bell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Bell County Judge/Executive



Bell County Treasurer